

PJSC IDGC OF NORTHERN CAUCASUS

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

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RSMRUS LTD

4 Pudovkina street,
Moscow, 119285, Russia
T: +7 495 363 2848
F: +7 495 981 4121
E: mail@rsmrus.ru
www.rsmrus.ru

17.03.2017
~ Рели. 1746

INDEPENDENT AUDITOR'S REPORT

To: the Shareholders of PJSC "IDGC of Northern Caucasus"

Audited entity:

Interregional Distribution Grid Company of Northern Caucasus, Public Joint Stock Company
(abbreviated name - **PJSC IDGC of Northern Caucasus**);

Location: 13A, Podstancionnaya Street, Energetik village, Pyatigorsk, Stavropol region, 357506, the Russian Federation.

Primary state registration number – 1062632029778.

Auditor:

RSM RUS Ltd.

Location: 4, Pudovkina Str., Moscow, 119285;
Tel.: (495) 363-28-48; Fax: (495) 981-41-21;
Primary state registration number – 1027700257540;

RSM RUS Ltd. is a member of Self-regulatory organization of auditors Association "Sodruzhestvo" (membership certificate # 6938, ORNZ 11306030308), location: 21, Michurinsky Ave., bldg. 4, Moscow, 119192.

Opinion

We have audited the consolidated financial statements of **PJSC IDGC of Northern Caucasus** and its subsidiaries (the Group), which comprise the Consolidated Statement of Financial Position as of 31 December 2016, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

Impairment of non-current assets

In our opinion, this matter was one of most significance in our audit due to a significant share of property, plant and equipment in total assets of the Group, high level of subjectivity of assumptions used to determine a value in use of property, plant and equipment as well as materiality of judgments and estimates made by the management.

The majority of the Group's property, plant and equipment is specialized in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value of the property, plant and equipment.

Therefore, the value in use for property, plant and equipment as at 31 December 2016 was determined using projected cash flows method. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment during the operating activities and upon disposal, to determine the recoverable amount of these assets.

We have performed procedures of analysis and testing of the model used in making the estimates, assessment of adequacy of assumptions underlying the estimates, including assumptions in respect of projected revenue, tariffs solutions, discount rates etc.

We have also reviewed the relevant controls in respect of the estimates, consideration by management of estimation uncertainty and changes in approaches as compared to the previous period. We have reviewed the actual outcomes of the use of the model to obtain sufficient and appropriate audit evidence about whether the management in making the estimates complied with IFRS requirements, the methods used in estimates of tests are appropriate and are applied consistently and the changes in estimates are reasonable based on information available at the date of preparation of the accounts.

For testing the model of estimate and underlying assumptions, we have engaged an expert in accordance with the procedure established by ISA.

We have evaluated the accuracy and sufficiency of disclosures to the consolidated financial statements of information about determination of the value of property, plant and equipment, including information about uncertainties taken into consideration when making impairment test estimates.

Non-current assets are disclosed in Note 7 and 8 to the consolidated financial statements.

Impairment of accounts receivable

In our opinion, this matter was one of most significance in our audit due to significant balances of the Group's accounts receivable as at 31 December 2016, and because the management estimate of collectability of the receivables is based on the assumptions, in particular, forecasting financial solvency of the Group's customers.

We have performed procedures of evaluation of the adequacy of the Group's policy on reviewing accounts receivable and determining if accounts receivables impairment allowance should be established, as well as procedures of confirming the reasonableness of the estimates made by the management of the Group, including review of accounts receivable payments, review of maturity dates and overdue debts, review of customers' financial solvency.

We performed audit procedures in respect of information used by the Group to determine the impairment of accounts receivable, accounts receivable ageing structure, tested the accuracy of accrued accounts receivables impairment allowance based on the estimates documented by the management.

Accrued accounts receivables impairment allowance is disclosed by the Group in Notes 12 and 28 to the consolidated financial statements.

Recognition and measurement of revenue

Recognition and measurement of revenue were matters of most significance in our audit due to certain imperfection of mechanisms of operation of retail electricity market and it leads to disagreements between electric grid companies and energy supply companies in respect of volume of electricity consumption and capacity. The assessment by the Group's management of favorable outcome of the dispute resolution is, to a large extent, subjective and is based on the assumptions of dispute resolution.

We evaluated the internal control over revenue recognition, reviewed the accuracy of determined revenue amounts based on concluded contracts for electricity transmission and other work (services), on a sample basis obtained confirmations of accounts receivable balances from the counterparties, reviewed and evaluated existing procedures for confirming the volume of electricity transmitted and outcomes of litigations in respect of disputed amounts for the provided services, and also performed other procedures to obtain sufficient and appropriate audit evidence, in order to confirm the accuracy, in all material respects, of the amounts of revenues recognized in the consolidated financial statements.

Revenue is disclosed in Note 22 to the consolidated financial statements.

Recognition, measurement and disclosure of provisions and contingent liabilities

Recognition, measurement and disclosure of provisions and contingent liabilities in respect of litigations and claims of counterparties (including territorial electric grid companies and energy supply companies) were matters of most significance in our audit because they require a lot of management judgments in respect of significant amounts in dispute in the course of litigations and claim settlements.

The audit procedures included review of court rulings made by courts of different levels, review of adequacy of management judgments and documents confirming the assessment of possibility of outflow of economic resources following dispute resolutions, conformity of the prepared documentation with the existing contracts and compliance with the law.

Accrued provisions and contingent liabilities of the Group are disclosed in Notes 21, 31 to the consolidated financial statements.

Responsibilities of Management and the Audit Committee of the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statement, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the Audit Committee of the Board of Directors all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Management Board Chairperson

Audit Certificate No. 05-000015. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 15 November 2011 No. 24. Permanent award.

ORNZ in the Register of auditors and audit organizations – 21706004215

Manager responsible for the audit

Audit Certificate No. 02-000028. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Institute of Professional Auditors" dated 15 November 2011 No.182. Permanent award.

ORNZ in the Register of auditors and audit organizations – 21606060060



N.A. Dantser

O.V. Andrienko

PJSC IDGC of Northern Caucasus
Consolidated Statement of Financial Position as at 31 December 2016
(thousands of Russian Roubles, unless otherwise stated)

	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	7	13,755,544	14,993,930
Intangible assets	8	98,471	99,930
Accounts receivables and loans issued	12	80,082	82,764
Deferred tax assets	9	2,855,064	2,984,760
Other non-current assets	10	1,071,176	1,060,702
Total non-current assets		17,860,337	19,222,086
Current assets			
Inventories	11	581,219	532,046
Income tax receivable		25,818	38,925
Trade and other receivables	12	4,283,014	3,431,965
Prepayments for current assets	13	45,263	16,905
Cash and cash equivalents	14	2,933,184	1,604,508
Non-current assets held for sale	15	3,411	8,583
Total current assets		7,871,909	5,632,932
TOTAL ASSETS		25,732,246	24,855,018
EQUITY AND LIABILITIES			
Equity			
Share capital	16	154,562	154,562
Additional paid in capital	16	5,052,502	5,052,502
Reserve for issue of shares	16	1,642,300	–
Reserves		(99,492)	(109,315)
Retained earnings /(loss)		(3,922,773)	1,231,819
Total equity		2,827,099	6,329,568
Non-current liabilities			
Loans and borrowings	17	5,805,943	4,126,758
Trade and other payables	19	458,031	470,879
Employee benefits	18	626,288	660,876
Total non-current liabilities		6,890,262	5,258,513
Current liabilities			
Loans and borrowings	17	4,900,486	5,260,877
Trade and other payables	19	10,328,944	6,866,043
Provisions	21	181,920	113,063
Other taxes payable	20	603,535	693,651
Income tax payables		–	333,303
Total current liabilities		16,014,885	13,266,937
Total liabilities		22,905,147	18,525,450
TOTAL EQUITY AND LIABILITIES		25,732,246	24,855,018

These consolidated financial statements were approved by management on 16 March 2017 and were signed on its behalf by:

General Director First Deputy



[Handwritten signature]

I.V. Thakahova
By proxy №2 from 1 January 2017

Chief Accountant

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N.V. Larionova

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 50.

PJSC IDGC of Northern Caucasus

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

(thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Revenue	22	17,912,482	16,079,258
Operating expenses	23	(22,257,535)	(24,335,421)
Other operating income	24	150,468	13,988,755
Operating profit/(loss)		(4,194,585)	5,732,592
Finance income	26	172,443	166,618
Finance costs	26	(993,919)	(848,727)
Profit/(loss) before income tax		(5,016,061)	5,050,483
Income tax (expense)/benefit	27	(140,990)	1,060,182
Profit/(loss) for the year		(5,157,051)	6,110,665
Other comprehensive income			
<i>Items that will never be reclassified subsequently to profit or loss</i>			
Remeasurement of net defined benefit liability	18	11,350	34,053
Related income tax		(1,527)	(613)
Total items that will never be reclassified subsequently to profit or loss		9,823	33,440
Other comprehensive income for the year, net of income tax		9,823	33,440
Total comprehensive profit/(loss) for the year		(5,147,228)	6,144,105
Profit/(loss) per share - basic and diluted (in Russian Roubles)	16	(33.37)	39.54

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 50.

PJSC IDGC of Northern Caucasus
Consolidated Statement of Cash Flows for the year ended 31 December 2016
(thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Operating activities			
Profit/(loss) before income tax		(5,016,061)	5,050,483
<i>Adjustments for reconciliation of profit/(loss) before income tax and net cash flows:</i>			
Depreciation and amortisation	7, 8, 23	1,529,427	1,487,836
Allowance for impairment of accounts receivable	23, 28	1,307,193	4,711,630
Reversal of allowance for obsolescence of inventories	11	1,966	(2,639)
Impairment of property, plant and equipment	7, 23	870,019	1,804,780
Provision for unused vacation		25,273	(23,172)
Provision for legal processes	21	131,989	329,506
Finance income	26	(172,443)	(166,618)
Finance costs	26	993,919	848,727
Gain on disposal of property, plant and equipment	24	(14,778)	(46,885)
Gain on deconsolidation of subsidiary		–	(13,624,951)
Other non-cash transactions		(8,003)	(7,328)
Operating profit before working capital changes		(351,499)	361,369
<i>Changes in working capital:</i>			
Change in accounts receivable		(2,639,706)	(4,628,253)
Change in prepayments for current assets		(28,358)	1,218
Change in inventories		(5,670)	207,374
Change in assets related to the employee benefit fund		8,827	19,407
Change in accounts payable		3,728,427	4,041,584
Change in employee benefits liabilities		(79,624)	(5,803)
Change in other taxes payable		(90,116)	(11,761)
Cash flows from operations before income tax and interest paid		542,281	(14,865)
Interest paid		(892,484)	(779,093)
Income tax paid		(333,303)	(89,455)
Net cash flows from operating activities		(683,506)	(883,413)
Investing activities			
Acquisition of property, plant and equipment and intangible assets		(912,350)	(1,273,038)
Proceeds from disposal of property, plant and equipment		1,986	12,906
Proceeds from disposal of assets held for sale		859	3,463
Acquisition of intangible assets		(43,213)	(54,086)
Loans issued		(74,727)	–
Interest received		103,668	107,873
Net cash flows used in investing activities		(923,777)	(1,202,882)
Financing activities			
Issue of shares		1,642,300	–
Received loans and borrowings		7,977,632	2,703,354
Repayment of loans and borrowings		(6,675,492)	(864,542)
Dividends paid	16	(571)	(57)
Repayment of finance lease liabilities		(7,910)	(6,153)
Net cash flows from financing activities		2,935,959	1,832,602
Net increase/(decrease) in cash and cash equivalents		1,328,676	(253,693)
Cash and cash equivalents at the beginning of the year	14	1,604,508	1,858,201
Cash and cash equivalents at the end of the year	14	2,933,184	1,604,508

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 50.

PJSC IDGC of Northern Caucasus
Consolidated Statement of Changes in Equity for the year ended 31 December 2016
(thousands of Russian Roubles, unless otherwise stated)

	Share capital	Additional paid in capital	Reserves	Retained earnings/ (loss)	Total equity
Balance at 1 January 2015	154,562	5,052,502	(142,755)	(4,878,846)	185,463
Profit for the year	-	-	-	6,110,665	6,110,665
Remeasurement of defined post-employment benefit liability (Note 18)	-	-	34,053	-	34,053
Income tax on other comprehensive income	-	-	(613)	-	(613)
Total comprehensive income for the year	-	-	33,440	6,110,665	6,144,105
Balance at 31 December 2015	154,562	5,052,502	(109,315)	1,231,819	6,329,568
	Share capital	Additional paid in capital	Reserve for issue of shares	Retained earnings/ (loss)	Total equity
Balance at 1 January 2016	154,562	5,052,502	-	1,231,819	6,329,568
Loss for the year	-	-	-	(5,157,051)	(5,157,051)
Remeasurement of defined post-employment benefit liability (Note 18)	-	-	-	11,350	11,350
Income tax on other comprehensive income	-	-	-	(1,527)	(1,527)
Total comprehensive loss for the year	-	-	-	9,823	(5,147,228)
Transactions with owners, recorded directly in equity					
Additional issue of shares	-	-	1,642,300	-	1,642,300
Write off of unclaimed dividends payable	-	-	-	2,459	2,459
Total transactions with owners, recorded directly in equity	-	-	1,642,300	2,459	1,644,759
Balance at 31 December 2016	154,562	5,052,502	(99,492)	(3,922,773)	2,827,099

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 50.

Note 1. Background

(a) The Group and its operations

Public Joint Stock Company Interregional Distribution Grid Company of Northern Caucasus (hereafter, the “Company” or “PJSC IDGC of Northern Caucasus”) and its subsidiaries (together referred to as the “Group”) comprise joint stock companies established and registered in accordance with the Civil Code of the Russian Federation. The Company was set up on 14 June 2006. Until 1 August 2007 the Company was named OJSC Southern Grid Company.

On 1 April 2008 the reorganization of the Company was completed through the merger of the grid companies of JSC Stavropolenergo, JSC Dagenergo, and JSC Caucasian Energy Management Company.

The Company’s registered office is 13A, Podstancionnaya Street, Energetik village, Pyatigorsk, Stavropol region, the Russian Federation, 357506.

The Group consists of the Company and its subsidiaries:

Name	Ownership, %	
	31 December 2016	31 December 2015
JSC Grid Company of Dagestan	100.0	100.0

The Group’s principal activities are the transmission of electricity and the connection of customers to the electricity grid.

As at 31 December 2015 the Russian Government presented by the Agency for State Property Management owned 86.32% of the voting ordinary shares and 7.01% of the preference shares of PJSC ROSSETI, which in turn owned 92.00% of the Company’s shares.

As at 31 December 2016 the Russian Government presented by the Agency for State Property Management owned 88.75% of the voting ordinary shares and 7.01% of the preference shares of PJSC ROSSETI, which in turn owned 92.00% of the Company’s shares.

(b) Relations with the state and current regulation

Since its foundation the Company has been under control of the Government of the Russian Federation. The Government of the Russian Federation influences the Group’s activities through setting power transmission and distribution and connection tariffs.

In accordance with the legislation, the Group’s tariffs are controlled by the Federal Antimonopoly Service and by the Executive Bodies of the constituent entities of the Russian Federation in the field of state regulation of tariffs.

(c) Russian business environment

The Group’s operations are located in the Russian Federation. Consequently, the Group is exposed to the national economics and financial markets, which display the characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. Management of the Company believes it is taking appropriate measures to support the sustainability of the Company’s business in the current circumstances.

Note 2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements (hereinafter “Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (hereafter, “IFRSs”).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2010.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the Company’s and its subsidiaries’ functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

(d) Going concern

These consolidated financial statements have been prepared on a going concern basis.

As at 31 December 2016 the Group had a net working capital deficit of RUB 8,142,976 thousand (as at 31 December 2015: RUB 7,634,005 thousand).

For the year 2016 a net loss of the Group amounted to RUB 5,147,228 thousand (for the year 2015: a net profit of RUB 6,144,105 thousand) and the impairment of the Group's property, plant and equipment in the amount of RUB 870,019 thousand (for the year 2015: RUB 1,804,780 thousand).

Tariff setting issues in the Dagestan Republic are under control of Management and the Board of Directors of the Company, the strategic decisions are taken in order to improve finance results of the company in the region.

Management of the Group monitors maturities of the estimated cash flows from operating and financing activities and manages current liquidity using open credit lines. As at 31 December 2016 the Group had unused credit lines in the amount of RUB 1,193,705 thousand (as at 31 December 2015: RUB 1,213,815 thousand). Management considers that the Group has the ability to raise additional loans and borrowings.

In order to increase efficiency of working capital management the Group is focused on an increased collection of trade receivables, including doubtful receivables. The Group approved a plan of measures to reduce outstanding receivables for electricity transmission and settlement of disputes with customers. The issues regarding collection of receivables are considered by the Board of Directors on a regular basis.

Management believes that the Group has adequate resources to continue operating activities and to repay current liabilities, that measures taken by the Group would be able to improve finance statements of the Group and there is no significant uncertainty regarding the Group's ability to continue as going concern in the foreseeable future.

(e) Use of judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 7 – Property, plant and equipment;
- Note 9 – Deferred tax assets;
- Note 11 – Inventories;
- Note 12 – Trade and other receivables;
- Note 18 – Employee benefits;
- Note 21 – Other provisions.

Note 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

(a) Basis of consolidation

(i) Business combinations including entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity, except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(c) Financial instruments

(ii) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

(iii) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: trade and other receivables, cash and cash equivalents.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest

method, less any impairment losses. Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 12.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value. Cash and cash equivalents are presented in Note 14.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

(iv) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(d) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain and loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within "other operating income, net" in profit or loss for the year.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be

measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment and investment property are recognised in profit or loss for the year as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Depreciation commences on the month following the acquisition or, in respect of internally constructed assets, from the month following the month an assets is completed and ready for use. Land is not depreciated.

The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

Type of property, plant and equipment	Useful lives (years)
Buildings and structures	10-80
Electricity transmission network	10-60
Equipment for electricity transformation	5-40
Other property, plant and equipment	3-20

Depreciation methods, estimated useful lives and residual values of property, plant and equipment are reviewed at each financial year end and adjusted if appropriate.

(f) Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortisation is recognised in profit or loss for the year on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives of intangible assets for the current and comparative periods are as follows:

Type of intangible assets	Useful lives (years)
Licenses and certificates	3-7
Software	1-10
Other	1-10

Amortisation methods, estimated useful lives and residual values of intangible assets are reviewed at each financial year end and adjusted if appropriate.

Among the Research and Development group are development, engineering and technological works. Expected useful lives are determined in each case of pending of Research and Development results, but it is not able to be more than 5 years.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the consolidated statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognized in profit or loss on a straight line basis over the lease term

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment losses

(i) *Non-derivative financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is an objective evidence of impairment.

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest

level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(j) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past services are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The actuarial gain or loss related to the defined benefit obligation is recognised in other comprehensive income.

(iii) Other non-current employee benefits

The Group's net obligation in respect of long term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(l) Revenue

(i) Electricity distribution

Revenue from distribution and sales of electricity is recognised in profit or loss based on an act of services rendered containing the physical volume of electricity distributed or sold. The act is prepared based on a monthly report of electricity consumption (prepared in physical volumes) for each customer. The tariffs for distribution and sales of electricity on regulated market are approved by the government agencies of the constituents of the Russian Federation in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Antimonopoly Service.

(ii) Connection services

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services.

Revenue is recognized when act of acceptance is signed. For contracts where connection services are performed in stages, revenue is recognized in the proportion to the stage of completion when act of acceptance is signed by the customer.

(iii) Other services

Revenue from installation, repair and maintenance services and other sales is recognized when the services are provided or when the significant risks and rewards of ownership of the goods have passed to the buyer.

(m) Finance income and costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets and discounts on financial instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, financial leasing, discounts on financial instruments and impairment losses recognised on financial assets other than trade receivables. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(n) Income tax expense

Income tax expense comprises current and deferred income tax. Current income tax and deferred income tax are recognised in profit or loss for the year except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(p) Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only when they are declared (approved by shareholders) before or on the reporting date. Dividends are disclosed in the notes to the financial statements when they are declared after the reporting date, but before the consolidated financial statements are authorised for issue.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segment's results are reviewed regularly by the General Director to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Segment financial information is presented in the Financial Statements in a manner similar to those provided

to the General Director. The amount of each segment item reported is the measure reported to the General Director. Total amounts of segment information are reconciled to those in the consolidated financial statements (Note 6).

(r) Related parties

As the Group is a government-related entity it applies the exemption on disclosure of information about transactions with entities that are related parties because the Government of Russian Federation has control, joint control or significant influence both over them and the Group.

(s) Impact of new Standards and amendments

The following standards and amendments which are effective from 1 January 2016 the Group applied for the first time. However, they do not significantly impact the consolidated financial statements:

- *Annual Improvements 2012-2014 Cycle.*
- *IFRS 14 Regulatory Deferral Accounts;*
- *Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets;*
- *Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Investment Property*
- *Amendments to IFRS 10 Consolidated Interim Condensed Financial Statements and IAS 28 Investments in Associates;*
- *Amendments to IFRS 11 Joint Arrangements;*
- *Amendments to IAS 27 Separate financial statements;*
- *Amendments to IAS 1 Presentation of Financial Statements;*
- *Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates in respect of accounting and disclosure of information about a subsidiary of an investment entity measured at fair value.*

Note 4. New standards and interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 and which the Group has not early adopted. The Group intends to adopt applicable standards when they become effective. None of them is expected to affect the consolidated financial statements of the Group, except the following set out below.

- ***IFRS 9 Financial Instruments.*** In 2014 the IASB issued the final version of IFRS 9, which reflects all phases of financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing impact of IFRS 9 on its consolidated financial statements.
- ***IFRS 15 Revenue from Contracts with Customers.*** IFRS 15 was issued in 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing impact of IFRS 15 on its consolidated financial statements.
- ***IFRS 16 Leases.*** IFRS 16 is single guidance for lease accounting and contains requirements for related disclosures. The new standard replaces IAS 17 Leases and the related interpretations on lease. IFRS 16 is partly or fully retrospectively effective for annual periods beginning on or after 1 January 2019, with earlier application permitted under the simultaneous application of IFRS 15.
- ***Disclosure Initiative (Amendments to IAS 7).*** The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The amendments are expected to result in additional disclosures but they do not affect financial position or financial performance of the Group.

The following new standards, amendments and interpretations may affect the Group consolidated financial statements but the effects are not expected to be significant.

- **Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12).** The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments.
- **Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).** The amendments are effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.
- **Transfers of Investment Property (Amendments to IAS 40).** The amendments are effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.
- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).** The effective date is deferred indefinitely. Adoption is permitted.
- **IFRIC 22 Foreign Currency Transactions and Advance Consideration.** The interpretation is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.
- **Various Improvements to International Financial Reporting Standards** issued by IASB within 2014-2016 Annual Improvements Cycle. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

Note 5. Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(e) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(f) Non-derivative financial liabilities

Fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 6. Operating segments

The General Director of the Company has been determined as the Chief Operating Decision-Maker.

The Group's primary activity is the provision of electricity transmission services within the regions of the Russian Federation. The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation and segments relating to other activities.

The General Director regularly evaluates and analyses the financial information of the segments reported in the statutory financial statements of respective segments.

In accordance with requirements of IFRS 8 based on the information on segments revenues and profits before income tax reported to the General Director the following reporting segments were identified:

- Electricity Transmission Segments: Dagestan Republic, North Ossetia-Alania Republic, Stavropol region, Kabardino-Balkaria and Karachaevo-Cherkessia Republics, Republic Ingushetia - the main activity of which is the provision of electricity transmission and distribution services within the Russian Federation;
- The other segment includes operations of JSC Grid Company of Dagestan (OJSC Energoservice) which didn't meet any of the quantitative thresholds for determining reportable segments. Since 1 July 2015 JSC Grid Company of Dagestan was included in the Dagestan Republic segment.

Unallocated items comprise corporate balances of the Company's headquarters which do not constitute an operating segment under IFRS 8 requirements.

Other revenue and a loss before tax in the Republic Ingushetia segment included revenue from electricity sales (Note 22) and expenses on the purchased electricity and capacity for implementation (Note 23) caused by the performance of guaranteed supplier functions in the Republic Ingushetia since 1 December 2015. This activity is not primary for the Company, it is not analyzed by the General Director separately and is not allocated in a separate segment.

Segment items are based on financial information reported in statutory accounts and can differ significantly from those for financial statements prepared under IFRS. The reconciliation of items measured as reported to the General Director with similar items in these Consolidated Financial Statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenue and profit before income tax, as included in the internal management reports that are reviewed by the General Director. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

(i) Information about reportable segments

For the year ended 31 December 2016

	Electricity Transmission Segments						Total
	Stavropol Region	Dagestan Republic	North Ossetia- Alania Republic	Kabardino- Balkarian Republic	Karachayevo- Cherkessian Republic	Ingushetia Republic	
Revenue							
Revenue from external counterparties	7,998,254	2,863,627	1,944,691	2,025,556	1,480,024	1,492,553	17,804,705
Inter-segment revenue	—	551,217	—	—	—	—	551,217
Total segment revenue	7,998,254	3,414,844	1,944,691	2,025,556	1,480,024	1,492,553	18,355,922
Including:							
<i>Electricity transmission</i>	7,850,942	2,801,371	1,920,558	2,014,295	1,464,000	822,698	16,882,864
<i>Technological connection</i>	99,717	4,180	11,247	5,531	10,469	723	131,867
<i>Other revenue</i>	38,595	609,293	12,886	5,730	5,555	669,132	1,341,191
Accrual of contingent liabilities reserve	(16,886)	(20,366)	(10,253)	(407)	(550)	(3,167)	(51,629)
Recovery of contingent liabilities reserve	6,988	9,223	1,203	25,560	423	12,415	55,812
Finance income	75,702	—	18,177	19,322	14,153	9,230	136,584
Finance costs	(484,266)	—	(116,081)	(123,822)	(90,095)	(58,912)	(873,176)
Depreciation and amortization	(781,230)	(496,791)	(233,752)	(210,403)	(185,121)	(127,403)	(2,034,700)
Profit/(loss) before income tax	(149,023)	(3,956,792)	(174,852)	178,873	12,498	(395,919)	(4,485,215)
Income tax	(26,367)	205,414	40,129	(53,231)	(15,831)	78,491	228,605

For the year ended 31 December 2015

	Electricity Transmission Segments							Total
	Stavropol Region	Dagestan Republic	North Ossetia- Alania Republic	Kabardino- Balkarian Republic	Karachayevo- Cherkesian Republic	Ingushetia Republic	Other	
Revenue								
Revenue from external counterparties	7,337,151	2,699,180	2,004,010	1,749,825	1,406,069	800,766	–	15,997,001
Inter-segment revenue	179	956,802	–	–	–	–	264	957,245
Total segment revenue	7,337,330	3,655,982	2,004,010	1,749,825	1,406,069	800,766	264	16,954,246
Including:								
<i>Electricity transmission</i>	7,164,707	3,086,834	1,992,000	1,743,121	1,399,193	745,686	–	16,131,541
<i>Technological connection</i>	135,263	1,647	1,448	2,855	2,132	607	–	143,952
<i>Other revenue</i>	37,360	567,501	10,562	3,849	4,744	54,473	264	678,753
Accrual of contingent liabilities reserve	(7,783)	(392,050)	(944)	(27,404)	(1,590)	(29,425)	–	(459,196)
Recovery of contingent liabilities reserve	4,693	130,611	8,605	998	102	15,459	–	160,468
Finance income	72,308	5,532	20,010	17,787	14,097	7,936	–	137,670
Finance costs	(343,151)	(28,709)	(95,298)	(84,289)	(66,826)	(37,423)	–	(655,696)
Depreciation and amortization	(767,827)	(490,230)	(249,958)	(201,722)	(190,710)	(107,845)	(291)	(2,008,583)
Profit/(loss) before income tax	126,318	(5,175,490)	(1,104,069)	(381,581)	75	(264,275)	(4,253)	(6,803,275)
Income tax	(94,624)	540,014	203,168	61,322	(14,526)	44,356	851	740,561

As at 31 December 2016

	Electricity Transmission Segments					Total	
	Stavropol Region	Dagestan Republic	North Ossetia- Alania Republic	Kabardino- Balkarian Republic	Karachayevo- Cherkessian Republic		Ingushetia Republic
Reportable segment assets	8,795,541	8,824,781	3,359,578	3,339,505	2,241,898	1,919,900	28,481,203
<i>Including property, plant and equipment</i>	<i>7,276,094</i>	<i>7,539,880</i>	<i>1,999,288</i>	<i>2,192,088</i>	<i>1,900,850</i>	<i>967,166</i>	<i>21,875,366</i>
Reportable segment liabilities	2,579,852	5,659,520	807,713	784,163	560,696	909,940	11,301,884
Capital expenditure	264,085	225,842	81,780	40,688	49,861	13,639	675,895

As at 31 December 2015

	Electricity Transmission Segments					Total	
	Stavropol Region	Dagestan Republic	North Ossetia- Alania Republic	Kabardino- Balkarian Republic	Karachayevo- Cherkessian Republic		Ingushetia Republic
Reportable segment assets	9,454,308	9,303,495	3,413,744	3,107,751	2,212,765	1,726,013	29,218,076
<i>Including property, plant and equipment</i>	<i>7,785,171</i>	<i>8,020,259</i>	<i>2,135,802</i>	<i>2,369,071</i>	<i>2,038,688</i>	<i>1,169,252</i>	<i>23,518,243</i>
Reportable segment liabilities	2,387,856	3,032,634	750,929	716,787	519,412	533,207	7,940,825
Capital expenditure	706,539	147,615	188,916	78,277	82,462	2,030	1,205,839

(ii) Reconciliation of reportable segment revenue, profit/(loss) before income tax and assets and liabilities

Reconciliation of key segment items measured as reported to the General Director with similar items in these consolidated financial statements is presented below.

Reconciliation of segment revenue is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Segment revenues	18,355,922	16,954,246
Inter-segment revenue elimination	(551,217)	(957,245)
Unallocated revenues	107,777	82,257
Revenues per consolidated statement of profit or loss and other comprehensive income	17,912,482	16,079,258

The Group performs its activities in the Russian Federation and does not have any significant revenues from foreign customers or any significant non-current assets located in foreign countries.

Reconciliation of reportable segment loss before income tax is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Reportable segment loss before income tax	(4,485,215)	(6,803,275)
Differences in accounting for property, plant and equipment between RAS and IFRS	711,663	693,787
Impairment of property, plant and equipment	(870,019)	(1,804,780)
Adjustment for finance leasing	9,160	8,360
Adjustment for inventories evaluation	(38,802)	(211)
Adjustment for allowance for impairment of accounts receivable	85,202	(1,324,164)
Employee retirement benefit obligations recognition	33,797	(63,891)
Reclassified expenses for the purposes of IFRS	(27,316)	(444,185)
Discounting of long-term receivables	9,763	15,383
Discounting of long-term payables	(56,069)	(48,911)
Adjustment for impairment of investments to subsidiaries and associates	100	(80,150)
Effect from disposal of subsidiary	–	13,624,951
Other provisions adjustments	–	1,323,075
Other adjustments	(1,431)	(42,506)
Unallocated items	(386,894)	(3,000)
Profit/(loss) before income tax per consolidated statement of profit or loss and other comprehensive income	(5,016,061)	5,050,483

Reconciliation of reportable segment total assets is presented below:

	31 December 2016	31 December 2015
Total segment assets	28,481,203	29,218,076
Adjustment for net book value of property, plant and equipment	(10,111,347)	(9,950,125)
Adjustment for allowance for impairment of accounts receivable	547,993	462,791
Discounting of accounts receivable	(31,771)	(41,534)
Recognition of assets related to employee benefits	283,683	273,124
Adjustment for deferred tax calculation	(207,890)	(1,534,767)
Inventories written-off	-	(5,785)
Adjustment for finance leasing	-	(1,250)
Other adjustments	(40,122)	(2,017)
Unallocated assets	6,810,497	6,436,505
Total assets per consolidated statement of financial position	25,732,246	24,855,018

Reconciliation of reportable segment total liabilities is presented below:

	31 December 2016	31 December 2015
Total segment liabilities	11,301,884	7,940,825
Adjustment for discounting of accounts payable	(629,586)	(685,655)
Post-employment benefits liabilities	626,288	660,876
Adjustment for deferred tax calculation	(1,180,602)	(1,046,046)
Adjustment for finance leasing	-	7,910
Adjustment for other provisions	-	242,496
Income tax payables adjustment	-	210,278
Other adjustments	(15,397)	21,900
Unallocated liabilities	12,802,560	11,172,866
Total liabilities per consolidated statement of financial position	22,905,147	18,525,450

Note 7. Property, plant and equipment

	Land plots and buildings	Electricity transmission networks	Equipment for electricity transformation	Constructio n in progress	Other	Total
<i>Cost</i>						
Balance at 1 January 2015	1,424,890	8,681,551	8,574,450	6,523,022	3,020,501	28,224,414
Additions	1,024	435	6,022	1,325,322	49,005	1,381,808
Transfer	466,974	498,810	777,185	(2,808,867)	1,065,898	–
Disposals	(1,455)	(3,995)	(1,416)	(57,392)	(38,318)	(102,576)
Disposals due to deconsolidation of subsidiary	–	(4,508)	(54,857)	(15,331)	(34)	(74,730)
Transfer to non-current assets held for sale	(315)	–	–	–	(1,383)	(1,698)
Balance at 31 December 2015	1,891,118	9,172,293	9,301,384	4,966,754	4,095,669	29,427,218
Balance at 1 January 2016	1,891,118	9,172,293	9,301,384	4,966,754	4,095,669	29,427,218
Additions	17	1	52	1,122,895	34,834	1,157,799
Transfer	18,151	216,956	207,404	(1,777,152)	1,334,641	–
Disposals	(262)	(917)	(2,475)	(82,798)	(9,247)	(95,699)
Balance at 31 December 2016	1,909,024	9,388,333	9,506,365	4,229,699	5,455,897	30,489,318
<i>Accumulated depreciation and impairment</i>						
Balance at 1 January 2015	(389,586)	(4,268,941)	(3,014,509)	(2,124,989)	(1,495,114)	(11,293,139)
Accrued depreciation for the year	(84,475)	(431,781)	(482,500)	–	(449,805)	(1,448,561)
Impairment loss	(134,438)	(498,015)	(690,408)	(447,406)	(34,513)	(1,804,780)
Transfer to PPE	(47,369)	(56,248)	(9,107)	506,028	(393,304)	–
Disposals	308	3,157	657	32,276	26,072	62,470
Disposals due to deconsolidation of subsidiary	–	3,089	37,711	9,830	34	50,664
Transfer to non-current assets held for sale	58	–	–	–	–	58
Balance at 31 December 2015	(655,502)	(5,248,739)	(4,158,156)	(2,024,261)	(2,346,630)	(14,433,288)
Balance at 1 January 2016	(655,502)	(5,248,739)	(4,158,156)	(2,024,261)	(2,346,630)	(14,433,288)
Accrued depreciation for the year	(93,127)	(385,806)	(490,675)	–	(518,147)	(1,487,755)
Impairment loss	(7,614)	(456,313)	(113,589)	(642,521)	(6,607)	(1,226,644)
Reversal of impairment loss	21,560	93,365	155,816	82,846	3,038	356,625
Transfer of impairment loss	–	(1,978)	(18,266)	21,052	(808)	–
Disposals	129	818	1,145	46,257	8,939	57,288
Balance at 31 December 2016	(734,554)	(5,998,653)	(4,623,725)	(2,516,627)	(2,860,215)	(16,733,774)
<i>Net book value</i>						
At 1 January 2015	1,035,304	4,412,610	5,559,941	4,398,033	1,525,387	16,931,275
At 31 December 2015	1,235,616	3,923,554	5,143,228	2,942,493	1,749,039	14,993,930
At 31 December 2016	1,174,470	3,389,680	4,882,640	1,713,072	2,595,682	13,755,544

As at 31 December 2016 construction in progress includes advances for the acquisition of property, plant and equipment of RUB 536,133 thousand (as at 31 December 2015: RUB 569,763 thousand).

As at 31 December 2016 advances issued for the acquisition of property, plant and equipment with a carrying amount of RUB 80,242 thousand were impaired (as at 31 December 2015: RUB 89,628 thousand). The impairment loss was recognised in operating expenses.

As at 31 December 2016 construction in progress includes construction materials of RUB 92,852 thousand (as at 31 December 2015: RUB 23,321 thousand).

For the year ended 31 December 2016 borrowing costs totalling RUB 42,011 thousand with a capitalisation rate of 11,87% were included in the cost of property, plant and equipment and consisted of interests on loans (as at 31 December 2015: RUB 114,039 thousand with a capitalisation rate of 12.16%).

For the years 2016 and 2015 there was no capitalisation of depreciation charge.

Determination of recoverable amount of property, plant and equipment

At each reporting period the Group assessed whether there was any indication that property, plant and equipment may be impaired. For those cash-generating units where such indication exists, the Group performed impairment testing in order to estimate the recoverable amount of the property, plant and equipment.

As at 31 December 2016 and 31 December 2015 the assessment of property, plant and equipment was performed in order to detect any indications of impairment.

The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value of the property, plant and equipment. Therefore the value in use for property, plant and equipment as at 31 December 2016 and 31 December 2015 was determined using projected cash flows method. This method considers the future net cash flows expected to be generated through the use of property, plant and equipment in the business to its ultimate disposal to determine the recoverable amount of the assets.

Cash-generating units are determined by the Group based on the geographical location of the branches and subsidiaries which are the smallest identifiable groups of assets that generate cash inflows that are independent of other assets of the Group.

Determination of recoverable amount of the assets of cash-generating units as at 31 December 2016

The following key assumptions were used in assessing the recoverable amounts of the assets of cash-generating units as at 31 December 2016:

- cash flows were projected based on the provisions of Methodical instruction on testing power grid assets for impairment (approved by Order no. 558p of PJSC ROSSETI dated 17 December 2014, with amendments no. 583p of 15 December 2015 and no. 543p of 14 December 2016) and forecast data until 2021;
- forecasted cash flows for the periods: 2017-2021 (for Dagenergo branch, JSC Grid Company of Dagestan and Ingushenergo branch); 2017-2022 (for Kabbalkenergo branch and Sevkavkazenergo branch); 2017-2025 (for Karachayevo-Cherkesskenergo branch); 2017-2026 (for Stavropolenergo branch) were determined based on the best estimate by management of PJSC IDGC of Northern Caucasus on electricity transmission volumes, operating expenses, capital expenditures and tariffs approved by the regulatory authorities for the year 2017 etc. A longer forecast period for Sevkavkazenergo branch, Karachayevo-Cherkesskenergo branch and Stavropolenergo branch was chosen as the stable cash flows will not be achieved by the end of 2021. For these branches the chosen forecast period is from the date of impairment testing till the end of five years period following the latest year of the current approved tariff regulation period or other number of years when the use of other period duration is more appropriate for the impairment testing purpose.
- forecasted tariffs on electricity transmission for the forecast period were estimated based on business plans, adjusted and agreed by PJSC ROSSETI, which were based on tariff models formed using average year increase of rate on electricity transmission services (in accordance with forecast on social and economic development of Russian Federation for 2017 and planning period of 2018-2019);
- forecasted electricity transmission volumes for all CGUs were determined on the basis of annual business plans of PJSC IDGC of Northern Caucasus for 2017-2021;
- forecasted cash flows were discounted to their present value at a nominal weighted-average cost of capital of 10.91%;
- the growth rate of the net cash flows in the post-forecast period amounted to 3.3% for Dagenergo branch, JSC Grid Company of Dagestan; 3.4% for Ingushenergo branch; 2.3% for Kabbalkenergo branch; 3.1% for Karachayevo-Cherkesskenergo branch, Sevkavkazenergo branch and Stavropolenergo branch. The difference in the long-term growth rates for the CGU is associated with the difference in the durations of forecasting period.

As a result of impairment testing as at 31 December 2016 the Group recognized impairment loss in the amount of RUB 1,226,644 thousand on property, plant and equipment and construction-in-progress of the Ingushetia Republic and the Dagestan Republic operating segments (Note 6). Also the Group recognized the reversal of impairment loss in the amount of RUB 347,239 thousand on property, plant and equipment and construction-in-progress of the North Ossetia-Alania Republic operating segment.

The sensitivity analysis of the main assumptions for PJSC IDGC of Northern Caucasus is presented below:

- For Dagenergo branch JSC Grid Company of Dagestan an increase in necessary gross revenue to the base value in each period of 10% leads to the absence of an impairment loss.

- For Ingushenergo branch an increase in necessary gross revenue to the base value in each period of 10% leads to the absence of an impairment loss.
- For Kabbalkenergo branch, Karachayevo-Cherkesskenergo branch, Stavropolenergo branch:
 - change in the level of investment in forecast and post-forecast periods,
 - ratio of the investment level (capital expenditures) to the amount of depreciation in forecast and post-forecast periods
 - ratio of the investment level (capital expenditures) to the amount of depreciation in forecast and post-forecast periods, changes in NGR to the base value in each period,
 - changes in discounting rate,
 - change in the level of operating expenses
 Within reasonable range does not lead to impairment
- For Sevkvkazenergo branch:
 - A decrease in NGR to the base value in each period of 5% leads to an impairment loss in the amount of RUB 105,489 thousand.
 - An increase in operating expenses amount of 5% leads to an impairment loss in the amount of RUB 105,489 thousand.

Note 8. Intangible assets

	Certificates and licences	Software	Research and development	Other	Total
<i>Cost</i>					
At 1 January 2015	199	82,249	3,000	26,112	111,560
Additions	582	53,446	–	58	54,086
Reclassification	–	–	(3,000)	3,000	–
Disposals	–	(21,177)	–	(280)	(21,457)
Disposals due to deconsolidation of subsidiary	(199)	(7,128)	–	(37)	(7,364)
At 31 December 2015	582	107,390	–	28,853	136,825
At 1 January 2016	582	107,390	–	28,853	136,825
Additions	1,058	41,924	–	231	43,213
Disposals	–	(11,624)	–	(3,077)	(14,701)
At 31 December 2016	1,640	137,690	–	26,007	165,337
<i>Accumulated amortisation</i>					
At 1 January 2015	(159)	(23,934)	–	(1,081)	(25,174)
Amortisation charge	(224)	(35,292)	–	(3,759)	(39,275)
Disposals	–	21,177	–	281	21,458
Disposals due to deconsolidation of subsidiary	186	5,882	–	28	6,096
At 31 December 2015	(197)	(32,167)	–	(4,531)	(36,895)
At 1 January 2016	(197)	(32,167)	–	(4,531)	(36,895)
Amortisation charge	(234)	(37,651)	–	(3,787)	(41,672)
Disposals	–	11,624	–	77	11,701
At 31 December 2016	(431)	(58,194)	–	(8,241)	(66,866)
<i>Net book value</i>					
At 1 January 2015	40	58,315	3,000	25,031	86,386
At 31 December 2015	385	75,223	–	24,322	99,930
At 31 December 2016	1,209	79,496	–	17,766	98,471

For the years 2016 and 2015 there was no capitalization of amortization charge.

Note 9. Deferred tax assets

(a) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Property, plant and equipment	720,493	785,671	(129)	(25)	720,364	785,646
Other non-current assets	1,225	898	(130)	(23)	1,095	875
Inventories	—	—	(6,590)	(4,192)	(6,590)	(4,192)
Trade and other receivables	1,880,894	2,029,782	—	—	1,880,894	2,029,782
Other current assets	8,149	389	—	—	8,149	389
Provisions	—	19,299	—	—	—	19,299
Employee benefits liabilities	—	—	(36,540)	(30,800)	(36,540)	(30,800)
Trade and other payables	36,825	8,922	(57,400)	(80,272)	(20,575)	(71,350)
Finance lease liability	—	1,582	—	—	—	1,582
Tax loss carry-forwards	821,728	253,529	—	—	821,728	253,529
Deferred tax assets / (liabilities)	3,469,314	3,100,072	(100,789)	(115,312)	3,368,525	2,984,760
Set-off of tax	(100,789)	(115,312)	100,789	115,312	—	—
Unrecognized deferred tax assets	(513,461)	—	—	—	(513,461)	—
Net deferred tax assets	2,855,064	2,984,760	—	—	2,855,064	2,984,760

(b) Movement in deferred taxes during the year

	1 January 2016	Recognised in profit or loss	Recognised in equity	31 December 2016
Property, plant and equipment	785,646	(65,282)	–	720,364
Other non-current assets	875	220	–	1,095
Inventories	(4,192)	(2,398)	–	(6,590)
Trade and other receivables	2,029,782	(148,888)	–	1,880,894
Other current assets	389	7,760	–	8,149
Provisions	19,299	(19,299)	–	–
Employee benefits liabilities	(30,800)	(4,213)	(1,527)	(36,540)
Trade and other payables	(71,350)	50,775	–	(20,575)
Finance lease liability	1,582	(1,582)	–	–
Tax loss carry-forwards	253,529	568,199	–	821,728
Unrecognized deferred tax assets	–	(513,461)	–	(513,461)
Net deferred tax assets	2,984,760	(128,169)	(1,527)	2,855,064

	1 January 2015	Recognised in profit or loss	Recognised in equity	Disposal of subsidiary	31 December 2015
Property, plant and equipment	655,507	129,445	–	694	785,646
Other non-current assets	(15,714)	19,537	–	(2,948)	875
Investments	(30)	30	–	–	–
Inventories	(3,839)	579	–	(932)	(4,192)
Trade and other receivables	1,280,703	1,037,249	–	(288,170)	2,029,782
Other current assets	1,495	(1,106)	–	–	389
Provisions	74,399	(3,454)	–	(51,646)	19,299
Employee benefits liabilities	(30,633)	446	(613)	–	(30,800)
Trade and other payables	(76,561)	13,321	–	(8,110)	(71,350)
Finance lease liability	2,812	(1,230)	–	–	1,582
Tax loss carry-forwards	1,363,404	469,583	–	(1,579,458)	253,529
Unrecognized deferred tax assets	(1,667,138)	(263,432)	–	1,930,570	–
Net deferred tax assets	1,584,405	1,400,968	(613)	–	2,984,760

Management believes that in the future the Company would have enough pre-tax income to utilize the deferred tax assets.

The deductible temporary differences do not expire under current tax legislation. Tax losses could be utilized within 10 years from their origination which expire in 2023-2026.

(c) Unrecognised deferred tax assets

As at 31 December 2016 unrecognised deferred tax assets included the deferred tax in the amount of RUB 401,763 thousand on tax losses carried forward and the deferred tax in the amount of RUB 111,698 thousand on temporary differences arising in respect of a loss-making subsidiary JSC Grid Company of Dagestan.

Note 10. Other non-current assets

	31 December 2016	31 December 2015
Assets related to the employee benefits (Note 18)	283,683	273,124
Accounts receivable related with PJSC FGC UES	787,319	787,319
Other	174	259
Total	1,071,176	1,060,702

Assets related to the employee benefits relate to the Group contributions accumulated in “solidary” and employees’ individual pension accounts with the Non-State Pension Fund of Electric Power Industry and Non-State Pension Fund “Professional”. Subject to certain restrictions 80% of contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

Long-term receivables on settlements with PJSC FGC UES refer to unsettled payments under the technical scope assignment agreement with PJSC FGC UES. Due to a dispute between the Group and PJSC FGC UES under this

agreement, receivables for services provided by the Group and payables (advances received) are presented in the financial statements separately. Under this agreement, the Group is not recording receivables in the amount of RUB 787,319 thousand net within the advances received until the completion of work and the signing of the delivery and acceptance certificate by PJSC FGC UES. Since no consensus was reached under this agreement (including as at the reporting date) with PJSC FGC UES not confirming any full settlement under the agreement, the Group concluded that receivables and payables should not be presented net. The receivables are recorded as long-term receivables within other non-current assets. The payables represent short-term payables, as the obligations were to be performed by 1 January 2015 under the agreement and should be treated as short-term payables until full settlement (Notes 19, 28).

The Group's exposure to credit and currency risks is disclosed in Note 28.

Note 11. Inventories

	31 December 2016	31 December 2015
Raw materials and consumables	574,767	541,094
Other inventories	17,466	–
<i>Allowance for obsolescence of inventories</i>	<i>(11,014)</i>	<i>(9,048)</i>
Total	581,219	532,046

Note 12. Trade and other receivables

	31 December 2016	31 December 2015
<i>Non-current accounts receivable and loans issued</i>		
Trade receivables	76,657	80,096
<i>Trade receivables impairment allowance</i>	<i>(448)</i>	<i>(1,039)</i>
Other receivables	3,873	3,707
Total	80,082	82,764
<i>Current accounts receivable</i>		
Trade receivables	13,137,183	12,870,680
<i>Trade receivables impairment allowance</i>	<i>(9,973,749)</i>	<i>(10,226,049)</i>
Other receivables	954,145	391,464
<i>Other receivables impairment allowance</i>	<i>(615,759)</i>	<i>(205,772)</i>
VAT recoverable	275,575	249,712
Loans issued	419,789	314,505
Prepaid taxes, other than income tax	85,830	37,425
Total	4,283,014	3,431,965

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 28.

Note 13. Prepayments for current assets

	31 December 2016	31 December 2015
Advances given	51,646	27,081
<i>Advances given impairment allowance</i>	<i>(6,383)</i>	<i>(10,176)</i>
Total	45,263	16,905

Note 14. Cash and cash equivalents

	31 December 2016	31 January 2015
Cash at bank and in hand	1,363,184	1,603,618
Cash equivalents	1,570,000	890
Total	2,933,184	1,604,508

As at 31 December 2016 cash and cash equivalents include balances in the amount of RUB 1,248,600 thousand (31 December 2015: RUB 1,270,000 thousand), which represent minimum required balances on the accounts in order to get additional finance income at interest rates of 0.10-9.20% per annum as at 31 December 2016 and 6.87-8.08% per

annum as at 31 December 2015. The requirement to maintain minimum level of cash balances does not restrict the Company's ability to use cash at any time, however, in case of breaking requirement on minimum required balances interest income would not be accrued.

As at 31 December 2016 cash equivalents are represented by a deposit in bank of JSC Gazprombank with a maturity of less than 3 months and an interest rate of 8% per annum.

All cash and cash equivalents are denominated in RUB.

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in Note 28.

Note 15. Non-current assets held for sale

The movement in the non-current assets held for sale was as follows:

	2016	2015
Balance at 1 January	8,583	10,539
Additions	–	1,640
Disposals	(5,172)	(3,596)
Balance at 31 December	3,411	8,583

Note 16. Equity

Share capital

	31 December 2016	31 December 2015
Number of ordinary shares authorised, issued and fully paid (in shares)	154,562,277	154,562,277
Par value (in RUB)	1	1
Total share capital (in RUB)	154,562,277	154,562,277

Additional paid in capital

As at 31 December 2015 and 2016 additional paid in capital consists of share premium in the amount of RUB 4,887,179 thousand and income from receiving borrowings at below-market rates from the Group's founder in the amount of RUB 165,323 thousand.

Dividends paid and declared

The Company's statutory financial statements form the basis for the distribution of profit and other appropriations. Due to differences between statutory accounting principles and IFRS, the Company's profit in the statutory accounts can differ significantly from that reported in the consolidated financial statements prepared under IFRS.

At the annual general meeting of shareholders of PJSC IDGC of Northern Caucasus held on 20 June 2016 the decision was made to declare no dividends on ordinary shares of the Company for the year 2015.

For the year ended 31 December 2016, the Group paid dividends for the previous periods of RUB 569 thousand and income tax related to dividends of RUB 2 thousand, and also wrote off accounts payable for unclaimed dividends in the amount of RUB 2,459 thousand. As at 31 December 2016 dividends payable of the Group amounted to RUB 695 thousand.

At the annual general meeting of shareholders of PJSC IDGC of Northern Caucasus held on 11 June 2015 the decision was made to declare no dividends on ordinary shares of the Company for the year 2014.

For the year ended 31 December 2015, the Group paid dividends for the previous periods of RUB 57 thousand and income tax related to dividends of RUB 8 thousand. As at 31 December 2015 dividends payable of the Group amounted to RUB 3,725 thousand.

Additional issue of shares

On 23 August 2016 an Extraordinary General Meeting of Shareholders of the Company approved an increase in the share capital of PJSC IDGC of Northern Caucasus through issuance of 3,258,695,653 additional ordinary registered uncertified shares with a par value of 1 rouble each.

At the meeting of the Board of Directors of the Company held on 21 December 2016 the decision was made to set the offering price of one additional ordinary share of PJSC IDGC of Northern Caucasus in the amount of RUB 17.45.

Additional issue and registration of prospectus of ordinary inscribed uncertified shares of the Company placed under an open subscription was registered in accordance with the decision of the Bank of Russia dated 15 December 2016.

Advances received as prepayment for share issue as at 31 December 2016 in the amount of RUB 1,642,300 thousand were recognised as a reserve for issue of shares directly within equity.

Profit/(loss) per share

The calculation of profit/(loss) per share is based upon the profit/(loss) for the year and the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

<i>In shares</i>	2016	2015
Number of shares issued as at 1 January	154,562,277	154,562,277
Weighted average number of ordinary shares as at 31 December	154,562,277	154,562,277
	Year ended	Year ended
	31 December 2016	31 December 2015
Weighted average number of ordinary shares	154,562,277	154,562,277
Profit/(loss) for the year	(5,157,051)	6,110,665
Weighted average profit/(loss) per ordinary share – basic and diluted (in RUB)	(33.37)	39.54

Note 17. Loans and borrowings

Non-current loans and borrowings

	Effective interest rate, %	Currency	Year of maturity	31 December 2016	31 December 2015
Loans					
PJSC Sberbank*	8.20-12.41	RUB	2017-2019	5,000,000	4,852,109
JSC Gazprombank*	10.50-13.00	RUB	2018-2019	2,305,943	2,499,694
Bonds	13.00	RUB	2021	1,350,000	–
Finance lease liability				–	7,910
Total non-current debt				8,655,943	7,359,713
<i>Less current portion of long-term debt and finance lease liability</i>				(2,850,000)	(3,232,955)
Total				5,805,943	4,126,758

Current loans and borrowings

	Effective interest rate, %	Currency	31 December 2016	31 December 2015
Borrowings				
PJSC ROSSETI**	–	RUB	30,000	30,000
Other			–	2,000
Total borrowings			30,000	32,000
Promissory notes				
PJSC ROSSETI**	–	RUB	1,541,035	1,541,035
PJSC FGC UES**	–	RUB	421,729	423,041
Total promissory notes			1,962,764	1,964,076
<i>Payables on interest on loans</i>			57,722	31,846
<i>Current portion of long-term debt</i>			2,850,000	3,225,045
<i>Current portion of finance lease liability</i>			–	7,910
Total			4,900,486	5 260,877

* Loans from government-related entities.

** Borrowings and promissory notes from the parent company and its subsidiary.

For the year ended 31 December 2016 the Company repaid loans in the amount of RUB 6,675,492 thousand (for the year ended 31 December 2015: RUB 864,542 thousand). In 2016, the Company raised RUB 4,146,337 thousand using previously open credit lines and using a new credit line – RUB 2,481,295 thousand, and also placed bonds in the amount of RUB 1,350,000 thousand.

All loans listed above are bank loans with fixed interest rate.

The Group has not entered into any hedging arrangements in respect of its interest rate exposure.

As at 31 December 2016 and 31 December 2015 all loans and borrowings of the Group were unsecured.

Financial lease liabilities are payable as follows:

	31 December 2016			31 December 2015		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
From 1 to 5 years	–	–	–	–	–	–
Less than 1 year	–	–	–	9,026	1,116	7,910
Total	–	–	–	9,026	1,116	7,910

Issuance of securities

On 27 July 2015 exchange-traded bond program and listing prospectus were approved by the Company's Board of Directors, according to which a decision was made to issue non-convertible interest-bearing documentary exchange-traded bearer bonds, which are placed through public subscription within the framework of the exchange of bonds, no more than RUB 6 billion, inclusive, and with a maturity of no more than 3,640 days from the date of commencement of exchange bonds placement as a separate issue, placed within the exchange-traded bond program. In 2016 the Company placed bonds in the amount of RUB 1,350,000 thousand.

On 16 August 2016 exchange-traded bond program and listing prospectus were approved by the Company's Board of Directors, according to which a decision was made to issue non-convertible interest-bearing documentary exchange-traded bearer bonds, which are placed through public subscription within the framework of the exchange of bonds, no more than RUB 25 billion, inclusive, and with a maturity of no more than 10,920 days from the date of commencement of exchange bonds placement as a separate issue, placed within the exchange-traded bond program. As at 31 December 2016 these bonds have not yet been admitted to organized trading.

Note 18. Employee benefits

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan and defined benefit pension plan (Non-State Pension Fund of the Electric Power and Non-State Pension Fund "Professional");
- defined benefit pension plans and other long-term defined benefit plans regulated by Collective Bargaining Agreements that include lump sum benefit for pensioners upon retirement, benefits paid in connection with the jubilee dates of pensioners and employees, financial support for pensioners and one-time benefits paid in case of the death of pensioners and others.

The amounts of defined benefit liability recognised in the consolidated statement of financial position are as follows:

	31 December 2016	31 December 2015
Net post employment benefits liability	538,459	569,149
Net other long-term employee benefits liability	87,829	91,727
Net defined benefit liability	626,288	660,876

Changes in value of assets related to employee benefit fund are set out below.

	For year ended	
	31 December 2016	31 December 2015
Value of assets as at 1 January	273,124	274,373
Income on plan assets	19,386	18,158
Other movements in accounts	124	185
Benefits paid	(8,951)	(19,592)
Value of assets as at 31 December	283,683	273,124

The assets related to pension programs and defined benefit are administrated by Non-state Pension Fund, Non-state Pension Fund of the Power Industry and Non-state Pension Fund "Professional". The assets are not assets of the Fund, because in accordance to the agreements with The Fund the Group is able to use accumulated contributions for reducing of future contributions or recovery financing other plans or transfer to other fund on own initiative.

	31 December 2016	31 December 2015
Defined benefit liability	(626,288)	(660,876)
Value of assets	283,683	273,124
Net	(342,605)	(387,752)

Movements in net defined benefit liability are as follows:

	For the year ended		For the year ended	
	31 December 2016		31 December 2015	
	Post employment benefits	Other long- term employee benefits	Post employment benefits	Other long- term employee benefits
Defined benefit liability as at 1 January	569,149	91,727	562,430	69,857
Current service cost	19,214	9,125	18,776	7,379
Past service cost and curtailments	(35,652)	(8,101)	10,249	2,551
Interest expenses on liabilities	49,127	7,259	61,519	6,926
<i>Remeasurement (gain) /loss arising from:</i>				
- changes in demographic actuarial assumptions	(8,823)	(725)	(135,691)	134
- changes in financial actuarial assumptions	(23,498)	(2,114)	94,087	8,764
- experience adjustments	20,971	5,970	7,551	8,255
Contributions to plan	(52,029)	(15,312)	(49,772)	(12,139)
	538,459	87,829	569,149	91,727

Expenses recognized in profit or loss for the period are as follows:

	For the year ended	
	31 December 2016	31 December 2015
Employee service cost	(15,414)	38,955
Remeasurement of other long-term employee benefit liability	3,131	17,153
Interest expenses	56,386	68,445
Total expenses recognized in profit or loss	44,103	124,553

(Income)/expenses recognized in other comprehensive income for the period are as follows:

	For the year ended	
	31 December 2016	31 December 2015
(Gain)/loss on changes in demographic actuarial assumptions	(8,823)	(135,691)
Loss/(gain) on changes in financial actuarial assumptions	(23,498)	94,087
(Gain)/loss on experience adjustments	20,971	7,551
Total income recognized in other comprehensive income	(11,350)	(34,053)

Movements in remeasurement recognized in other comprehensive income for the period are as follows:

	2016	2015
Remeasurement as at 1 January	108,235	142,288
Changes in remeasurement	(11,350)	(34,053)
Remeasurement as at 31 December	96,885	108,235

Key actuarial assumptions are as follows:

Financial assumptions

	31 December 2016	31 December 2015
Discount rate	8.50%	9.50%
Potential increase in salary and wages	4.70%	6.00%
Inflation rate	4.70%	6.00%

Financial actuarial assumptions are based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The average period over which the Group obligations are to be settled is:

- for defined benefit plans including non-state pension provision of employees – 10.53 years;
- other long-term employee benefits – 10.63 years.

Assumptions regarding future mortality were based on published statistics and mortality tables. Estimates were based on the mortality table of the Russian population for 2011 adjusted in respect of employees, male and female, on 70% and 40%, respectively. The mortality table for 2011 was applied in respect of unemployed pensioners, male and female, adjusted on 30% and 5%, respectively.

Demographic assumptions

	31 December 2016	31 December 2015
Expected retirement age (years)		
- males	60	60
- females	55	55
Average employee turnover	7.5%	7.8%

The sensitivity of the defined benefit liability to changes in the key actuarial assumptions is presented below:

	Changes in assumptions	Effects on liability
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 5.33%
Potential increase in salary and wages	Increase/decrease by 0.5%	Increase/decrease by 0.46%
Potential increase in pensions (inflation)	Increase/decrease by 0.5%	Increase/decrease by 5.06%
Employee turnover level	Increase/decrease by 10%	Decrease/increase by 1.22%
Mortality level	Increase/decrease by 10%	Decrease/increase by 2.58%

The above sensitivity analysis was based on the method of each actuarial assumption changes within other actuarial assumptions remaining constant. The valuation method similar to the estimation measurement method of the present value of liabilities (projected unit credit method) was applied to the key actuarial assumptions used in the sensitivity calculation of the present value of liabilities, recognized in the Consolidated Statement of Financial Position.

For 2017 the expected payment under defined long-term benefit plans amounts to RUB 53,967 thousand, including:

- under defined benefit plans, including non-state pension provision of employees in the amount of RUB 42,053 thousand;
- under other long-term employee benefits in the amount of RUB 11,914 thousand.

Note 19. Trade and other payables

	31 December 2016	31 December 2015
<i>Non-current accounts payable</i>		
Trade payables	458,031	470,879
Total	458,031	470,879
<i>Current accounts payable</i>		
Trade payables	8,140,411	4,773,862
Other payables and accrued expenses	1,395,898	1,250,444
Payables to employees	592,414	612,880
Dividends payable	695	3,725
Advances from customers	199,526	225,132
Total	10,328,944	6,866,043

The Group's exposure to currency and liquidity risk related to payables is disclosed in Note 28.

Note 20. Other taxes payable

	31 December 2016	31 December 2015
Value added tax	381,463	328,522
Payments to social funds	116,825	122,727
Property tax	53,408	47,168
Other taxes payable	51,839	195,234
Total	603,535	693,651

Note 21. Other provisions

	2016	2015
Balance as at 1 January	113,063	2,031,806
Increase for the period	214,511	498,999
Provisions used	(63,132)	(1,747,528)
Disposal of provisions due to deconsolidation of subsidiary	–	(500,721)
Decrease due to changes in accounting approaches	(82,522)	(169,493)
Balance as at 31 December	181,920	113,063

Other provisions relate to legal proceedings and unsettled legal claims against the Group.

Note 22. Revenue

	Year ended 31 December 2016	Year ended 31 December 2015
Electricity transmission	16,882,864	15,734,295
Connection services	131,867	143,952
Electricity sales	667,495	53,225
Rental income	16,480	14,254
Other revenue	213,776	133,532
Total	17,912,482	16,079,258

Other revenue is comprised of installation, repair and maintenance services, transportation services and other sales.

From 1 December 2015, pursuant to order of the Russian Ministry of Energy no. 888 of 25 November 2015 PJSC IDGC of Northern Caucasus undertook the function of guaranteeing electricity supplier in Ingushetia Republic (for the period till the winner will be determined but no more than for 12 months). Hence, the Company is involved in a new type of activity - purchasing electricity on the wholesale market and selling it on the retail market.

Note 23. Operating expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Personnel costs (Note 25)	6,557,003	6,055,275
Purchased electricity for compensation of technological losses	5,798,330	5,157,763
Electricity transmission	1,674,075	1,365,268
Depreciation and amortization	1,529,427	1,487,836
Allowance for impairment of trade and other receivables	1,307,193	4,711,630
Purchased electricity and power for sale	885,216	48,595
Impairment of property, plant and equipment	870,019	1,804,780
Raw materials and supplies	835,404	737,621
Rent	661,473	642,123
Taxes other than income tax	296,611	366,342
Electricity and heat power for own needs	240,281	224,167
Repairs and maintenance	223,647	242,818
Other provisions	131,989	329,506
Expenses related to maintenance of assets	131,715	109,553
Security services	119,647	101,419
Management services	83,708	82,800
Business trip expenses	70,963	55,822
Social expenditures and charity expenses	43,082	17,872
Telecommunication and information services	39,696	32,767
Consulting, legal and audit services	33,479	28,273
Other production works and services	3,516	6,504
Transportation	744	2,074
Other expenses	720,317	724,613
Total	22,257,535	24,335,421

Note 24. Other operating income

	Year ended 31 December 2016	Year ended 31 December 2015
Fines and penalties	76,189	262,643
Write-off of accounts payable	21,099	13,015
Non-contractual electricity consumption	19,828	28,115
Gain on disposal of property, plant and equipment	14,778	46,885
Insurance repayments	12,096	5,855
Gain on deconsolidation of subsidiary	-	13,624,951
Other income	6,478	7,291
Total	150,468	13,988,755

Note 25. Personnel costs

	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries	4,928,853	4,544,439
Payroll taxes	1,466,765	1,348,547
(Income)/expenses in respect of defined benefit plan (Note 18)	(16,438)	29,025
Expenses in respect of other long-term employee benefits (Note 18)	1,024	9,930
Remeasurement of net defined liabilities on other long-term employee benefits, net of deferred tax (Note 18)	3,131	17,153
Other personnel costs	173,668	106,181
Total	6,557,003	6,055,275

Note 26. Finance income and costs

	Year ended 31 December 2016	Year ended 31 December 2015
Finance income		
Interest income on current bank accounts and loans issued	136,584	132,877
Interest income on assets related to employee benefit obligations	19,386	18,158
Discounting of financial instruments	16,473	15,581
Other finance income	–	2
Total	172,443	166,618
Finance costs		
Interest expenses on financial liabilities measured at amortised cost	873,666	728,212
Defined post-employment benefits plans (Note 18)	49,127	61,519
Amortization of discount of financial instruments	62,779	49,109
Defined other long-term benefits (Note 18)	7,259	6,926
Interest expense on finance lease liabilities	1,088	2,847
Other interest expenses	–	114
Total	993,919	848,727

Note 27. Income tax expense

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax expenses		
Current tax charge	–	(43,570)
Over provided in prior years	(12,821)	(297,216)
	(12,821)	(340,786)
Deferred income tax benefit		
Deferred income tax charge	(128,169)	1,400,968
Total income tax benefit	(140,990)	1,060,182

The Group's applicable tax rate in 2016 and 2015 is the income tax rate of 20% for Russian companies. This rate has been used in the calculation of deferred tax assets and liabilities.

Reconciliation of effective tax rate:

	Year ended 31 December 2016		Year ended 31 December 2015	
		%		%
Profit/(loss) before income tax	(5,016,061)	100	5,050,483	100
Income tax at applicable tax rate	1,003,212	(20)	(1,010,097)	(20)
Tax effect of items which are not deductible or taxable for taxation purposes	(617,920)	12	2,367,495	35
Over provided in prior years	(12,821)	–	(297,216)	(5)
Unrecognized deferred tax assets	(513,461)	10	–	–
Total	(140,990)	3	1,060,182	10

Note 28. Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

The Group's risk management policies deal with identifying and analyzing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Group's Audit Committee oversees how management of the Group monitors compliance with the internal control procedures.

(b) Fair value hierarchy

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices from observable current market transactions.

The levels of determination of fair value have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

As at 31 December 2016 the Group holds investments in equity securities of RUB 173 thousand classified as available for sale measured at fair value and belong to Level 1 in the fair value hierarchy (as at 31 December 2015: RUB 132 thousand). Valuation of available-for sale investments is made on a recurring basis using quoted market prices.

As at 31 December 2016 the fair value of long-term bank loans and borrowings in the amount of RUB 10,364,100 thousand (as at 31 December 2015: RUB 6,849,178 thousand) was calculated on the base of observable market data (Level 2) using weighted average interest rates on loans to nonfinancial organizations in Russian Roubles over 1 year published by Bank of Russia for December 2016.

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

To manage the credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is stipulated by contract and depends on the amount of capacity to be connected. The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables that relate to individually significant exposures.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure of the Group. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	31 December 2016	31 December 2015
Trade and other receivables <i>(net of allowance for impairment)</i>	3,581,902	2,913,087
Cash and cash equivalents	2,933,184	1,604,508
Loans issued	419,789	314,505
Total	6,934,875	4,832,100

At 31 December 2016 the Group's ten most significant debtors account for RUB 2,444,613 thousand of the trade receivables carrying amount (as at 31 December 2015: RUB 2,088,878 thousand).

The maximum exposure to credit risk for trade receivables at the reporting date by type was:

	31 December 2016	31 December 2015
Electricity transmission	9,388,028	9,719,807
Electricity sales	737,132	131,859
Connection services	3,401	72,231
Other sales	3,085,279	3,026,879
<i>Less: Allowance for impairment of accounts receivable</i>	<i>(9,974,197)</i>	<i>(10,227,088)</i>
Total	3,239,643	2,723,688

Impairment losses on accounts receivable

The aging of trade and other receivables at the reporting date was:

	31 December 2016		31 December 2015	
	Gross	Impairment	Gross	Impairment
Not past due	1,530,820	(24,992)	1,786,785	(61,768)
Past due less than 3 months	1,316,703	(104,177)	1,238,534	(403,138)
Past due more than 3 months and less than 6 months	1,050,283	(569,220)	604,339	(580,022)
Past due more than 6 months and less than 1 year	1,227,199	(938,340)	2,690,172	(2,688,360)
Past due more than 1 year	9,046,853	(8,953,227)	7,026,117	(6,699,572)
Total	14,171,858	(10,589,956)	13,345,947	(10,432,860)

The movement in the allowance for impairment in respect of receivables during the year was as follows:

	2016	2015
Balance as at 1 January	(10,432,860)	(7,310,523)
Accrued allowance for doubtful debts during the period	(1,699,258)	(5,266,976)
Receivables written off against allowance for bad debts	1,150,097	99,176
Disposal of allowance due to deconsolidation of subsidiary	–	1,490,117
Decrease in allowance due to changes in accounting estimates	392,065	555,346
Balance as at 31 December	(10,589,956)	(10,432,860)

The allowance accounts in respect of trade receivables are used by the Group to record impairment losses, unless the Group considers that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the corresponding financial asset.

(d) Offsetting of financial assets and financial liabilities

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

	31 December 2016		31 December 2015	
	Trade and other		Trade and other	
	accounts receivable	accounts payable	accounts receivable	accounts payable
Gross amounts	8,808,064	8,840,355	9,091,862	6,609,960
Allowance for doubtful accounts receivable	(952,966)	–	(3,397,458)	–
<i>Amounts offset in accordance with IAS 32 offsetting criteria</i>	6,201,720	6,201,720	5,321,765	5,321,765
Net amounts presented in the statement of financial position:	1,653,378	2,638,635	372,639	1,288,195
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	406,100	406,100	242,872	242,872
Net amount	1,247,278	2,232,535	129,767	1,045,323

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

The contractual maturities of financial liabilities presented including estimated interest payments and excluding the impact of netting agreements:

31 December 2016

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Loans and borrowings	7,393,665	10,719,773	5,707,956	2,414,095	2,597,722	–	–	–
Exchange-traded bonds	1,350,000	2,106,333	175,500	175,500	175,500	175,981	1,403,852	–
Promissory notes	1,962,764	1,962,764	1,962,764	–	–	–	–	–
Trade and other payables	9,207,716	9,826,283	8,743,093	2,890	1,510	–	2,192	1,076,598
Total	19,914,145	24,615,153	16,589,313	2,592,485	2,774,732	175,981	1,406,044	1,076,598

31 December 2015

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Loans and borrowings	7,415,649	8,482,518	3,830,157	2,554,319	2,098,042	–	–	–
Promissory notes	1,964,076	1,964,076	1,964,076	–	–	–	–	–
Finance lease liability	7,910	9,026	9,026	–	–	–	–	–
Trade and other payables	5,711,591	6,317,310	5,240,712	–	–	–	–	1,076,598
Total	15,099,226	16,772,930	11,043,971	2,554,319	2,098,042	–	–	1,076,598

Accounts receivable and accounts payable related to the accounting approach to settlements with PJSC FGC UES in the amount of RUB 787,319 thousand (Note 10) are not included in the amounts represented in credit risk and liquidity risk. The Company does not expect any cash inflows and outflows related to these amounts.

(f) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates.

The Group operates within the Russian Federation. The major part of the Group's purchases and sales is denominated in RUB. Therefore, the Group's exposure to foreign exchange risk is insignificant.

(ii) Interest rate risk

The Group obtains borrowings mostly at fixed rate and is subject to the limited risk of interest rate changes.

Management of the Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, when making a decision about new loans and borrowings management of the Group gives priority to loans and borrowings with fixed rates. As a rule, loan agreements entered into by the Group do not contain any charges for early repayment of loans on borrower's initiative which facilitates additional flexibility in relation to optimizing interest rates in the current economic environment.

The majority of interest rates on long term and short term loans and borrowings are fixed, these are disclosed in Note 17. The Group has no significant interest-bearing assets. Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimise potential adverse effects on the financial performance of the Group.

Fair values sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss for the year. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(g) Fair values

Management determined that at the reporting date the fair value of cash and short-term deposits, trade receivables and trade payables and other short-term liabilities approximates their carrying value, mainly due to short-term maturities of these instruments.

(h) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as net profit after tax divided by total shareholders' equity.

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

The Company and its subsidiaries are subject to external capital requirements that require that their net assets as determined in accordance with Russian Accounting Principles must exceed their share capital at all times.

Note 29. Operating leases

The Group leases a number of land plots owned by local governments under operating leases. In addition, the Group leases non-residential premises and vehicles.

Land leases were entered in prior periods and represented land plots on which power lines, equipment for electricity transformation and other assets are located. The land leases typically run for an initial period of 1 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

The land title does not pass and the landlord retains control over land usage. The Group determined that substantially all the risks and rewards of the land plots are with the landlord, therefore the leases are considered as operating leases.

Operating lease rentals are payable as follows:

	Year ended	Year ended
	31 December 2016	31 December 2015
Less than one year	500,313	467,141
Between one and five years	358,918	401,829
More than five years	397,150	522,635
Total	1,256,381	1,391,605

During the year RUB 661,473 thousand was recognised in the statement of profit or loss and other comprehensive income in respect of operating leases (2015: RUB 642,123 thousand).

Note 30. Commitments

As at 31 December 2016 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 1,201,697 thousand (as at 31 December 2015: RUB 1,109,538 thousand).

Note 31. Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management of the Group believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

(d) Environmental matters

The Group and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management of the Group believes that there are no significant liabilities for environmental damage.

Note 32. Related party transactions

(a) Control relationships

As at 31 December 2016 and 31 December 2015 PJSC ROSSETI was the Parent company of the Company. The party with ultimate control over the Company is the Russian Government, which holds the majority of the voting rights in PJSC ROSSETI.

The majority of the Group's transactions are with the subsidiaries of PJSC ROSSETI and other state controlled entities.

(b) Transactions with the Parent and entities under control of the Parent and balances on settlements

Transactions with the Parent and its subsidiaries were as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Revenue:		
<i>Transactions with the entities under control of the Parent</i>		
Electricity transmission	6,500,495	6,973,866
Rental income	6,377	6,483
Other revenue	165,780	93,794
Other income	25,462	–
Interest income on loans issued	30,558	25,004
Expenses:		
<i>Transactions with the Parent</i>		
Management services	76,525	76,525
Services for technical supervision	17,727	15,366
<i>Transactions with the entities under control of the Parent</i>		
Electricity transmission	1,586,046	1,273,604
Purchased electricity for compensation of technological losses	3,538,482	3,212,326
Electricity and heat power for own needs	110,770	101,423
Purchased electricity for sale	998	–
Other expenses	146,738	76,649
Interest expenses	118,759	–

All outstanding balances with related parties are to be settled in cash within a year of the statement of financial position date. None of the balances are secured.

Balances on settlements with the Parent and its subsidiaries are presented below:

	31 December 2016	31 December 2015
Trade and other receivables	3,418,970	2,620,415
<i>Allowance for impairment of trade receivables</i>	<i>(2,302,284)</i>	<i>(2,019,734)</i>
Loans issued	419,789	314,505
Exchange-traded bonds	1,350,000	–
Promissory notes and loans received	2,025,328	1,994,076
Advances received	1	31,312
Trade and other payables	8,102,375	4,480,684
<i>Discounting of trade accounts payable</i>	<i>(629,586)</i>	<i>(685,655)</i>
Other provisions	305	36,483

Related party revenue for electricity transmission and connection services is based on the tariffs determined by the Government; other related party transmissions are based on normal market prices.

(c) Transactions with other state-controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for electricity and heat are based on tariffs set by the Federal Antimonopoly Service and by the Executive Bodies of the constituent entities of the Russian Federation in the field of state regulation of tariffs.

Revenues from state-controlled entities for the year ended 31 December 2016 constitute 7% (2015 – 6%) of total revenues, including 6% (2015 – 6%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the year ended 31 December 2016 constitute 1% (2015 – 1%) of total transmission costs.

(d) Transactions with management and close family members

The Group determines the members of the Board of Directors, the Management Board and senior managers of the Group as key management personnel.

There are no transactions or balances with key management and close family members except their remuneration in the form of salary and bonuses.

Salary and bonuses which are paid to members of Board of Directors and Key Management Personnel for performing their job responsibilities consist of wages, non-cash benefits, bonuses calculated on the basis of the results for the period presented in the Company's obligatory financial statements prepared in accordance with Russian accounting principles and payments to social funds.

There are no transactions or balances with key management personnel and close family members except the following:

	Year ended	Year ended
	31 December 2016	31 December 2015
Salaries and bonuses, including social taxes	70,633	33,584
Personnel (income)/costs in respect of post-employment defined benefit plan	814	(266)
Interest costs in respect of long-term employee benefits liabilities	200	388
Remeasurement of defined liabilities on long-term employee benefits recognised in other comprehensive income	(15)	(1,252)

The amounts of key management personnel remuneration disclosed in the table are recognized as expenses related to key management personnel for the current year and presented in personnel costs (Note 25).

The present value of defined benefit and defined contribution liabilities and other long-term employee benefits plans includes liabilities related to key management personnel in the amount of RUB 3,102 thousand (2015: RUB 2,104 thousand).

Note 33. Events after the reporting period

On 9 January 2017 the Group repaid its debt to PJSC ROSSETI in the total amount of RUB 1,571 million including promissory notes of RUB 1,541 million and the loan in the amount of RUB 30 million.

On 14 February 2017 the Group entered into a new loan agreement with Bank VBRR (JSC) with a limit of RUB 500 million.

On 7 March 2017 the Group received an act following the field tax audit on the correctness of calculation and timeliness of tax payment for 2013-2014 prescribing an additional charging of taxes, penalties in the total amount of RUB 141 million. The Group does not agree with the claims of the tax authorities and prepares objections to this act. The Group estimates the probability of paying the accrued amount as low.